

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Edward A. Garvey  
Joel Jacobs  
Marshall Johnson  
LeRoy Koppendrayer  
Gregory Scott

Chair  
Commissioner  
Commissioner  
Commissioner  
Commissioner

In the Matter of Peoples Natural Gas  
Company's Request to Establish a Tariff for  
Repairing and Replacing Farm Tap Lines

ISSUE DATE: February 17, 1998

DOCKET NO. G-011/M-91-989

ORDER PERMITTING COMPANY TO  
CONTINUE DEFERRED ACCOUNTING

**PROCEDURAL HISTORY**

On August 18, 1997 Peoples Natural Gas Company filed a report on its farm tap inspection program. The Company stated it had inspected every farm tap line in its service area over the past three years, that all necessary repairs had been made, and that the Company now proposed to discontinue the farm tap inspection program.

On September 15, 1997 the Department of Public Service (the Department) filed comments. The Department recommended continuing the inspection program, changing inspection intervals from every three years to every five, and changing customer notice and utility reporting requirements. The Department also recommended that the Commission stop permitting the Company to defer farm tap expenses in a tracker account for potential recovery in its next rate case.

On September 16, 1997 the State Fire Marshall, in his capacity as Director of the Office of Pipeline Safety, filed comments urging the Commission to continue the farm tap inspection program.

On October 27, 1997 Peoples filed reply comments. The Company agreed to continue the program, accepted some of the Department's proposals on reporting and customer notification requirements, and opposed ending deferred accounting of farm tap expenses.

The matter came before the Commission on December 11, 1997, when it was tabled, and on January 14, 1998, when it was decided. By the January 14 meeting, the parties had reached agreement on all issues except the deferred accounting issue.

**FINDINGS AND CONCLUSIONS**

## **I. Factual Background**

In May 1993 this Commission issued an Order requiring Peoples Natural Gas Company to develop an inspection program for “farm tap” lines, customer-owned distribution lines running from the interstate pipeline to the customer’s point of delivery. Most of these lines were constructed at the same time as the interstate pipeline, about 45 years ago. Northern Natural Gas Company, which constructed the pipeline, permitted rural landowners to tap into it in return for easements permitting the company to run the main pipeline below their land.

By 1993 many farms with farm tap lines had changed owners, and many of the lines had fallen into disrepair. To ensure that Peoples’ service met minimum safety standards the Commission required the Company to develop a farm tap inspection program, to amend its tariffs to require farm tap customers to permit line inspections as a condition of receiving service, to offer financing on reasonable terms to customers contracting with the Company for farm tap repairs, and to develop and distribute a customer brochure on farm tap service and related safety issues.<sup>1</sup> During the following three years the Company inspected every farm tap line in its service area. Of the 2,322 lines inspected, 423 had leaks. Fifteen were Class 1 leaks, requiring immediate repair; 51 were Class 2 leaks, requiring repair within six months or before ground freezing, whichever occurred earlier; and 357 were Class 3 leaks, requiring reinspection and reevaluation within 15 months or at the next scheduled inspection, whichever occurred earlier. All farm tap lines with Class 1 or Class 2 leaks had been repaired or replaced. Eighty-six of the lines with Class 3 leaks had been repaired or replaced.

The Company reported it had spent \$128,500 on the three-year inspection program. Since the Commission had authorized deferred accounting of these costs, they would be recovered through rates set in its next general rate case, unless found to have been imprudently incurred.

## **II. Positions of the Parties**

The Department considered the farm tap inspection program a critical public safety measure, but believed that its relatively small cost (approximately \$43,000 per year) did not justify continuing deferred accounting treatment. The agency therefore recommended disallowing deferred accounting for future program costs.

The Company argued that it offended fundamental fairness to require the Company to undertake a public safety program without permitting rate recovery, in effect requiring the shareholders to fund the program.

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<sup>1</sup>In the Matter of Peoples Natural Gas Company’s Request to Establish a Tariff for Repairing and Replacing Farm-Tap Lines, Docket No. G-011/M-91-989, ORDER APPROVING TARIFF LANGUAGE, REQUIRING INSPECTIONS, AND REQUIRING CUSTOMER BROCHURE (May 25, 1993).

### III. Commission Action

The Department is right that deferred accounting is usually reserved for large expenses unforeseen at the time of a utility's last rate case. This preserves the accuracy and integrity of the general ratemaking process, which sets rates based on financial data from a test year, a representative slice of the utility's normal operations.

Introducing other expenses (or revenues) into that process requires clear justification. Test years are imprecise instruments, and it is expected that actual revenues and expenses will differ from test year figures. Adjusting for some differences and not for others, however, can skew the ratemaking process for or against the company.

The Commission agrees with the Company, however, that simple fairness requires permitting deferred accounting here. This is not a case in which the Company seeks to defer and recover costs it overlooked or should have foreseen during its last rate case. Nor are farm tap costs part of the anticipated fluctuations in cost and revenue that are expected between rate cases. Farm tap costs are new costs for a new program no one anticipated. Denying deferred accounting would essentially be requiring the shareholders to fund the program.

Furthermore, the Commission has long permitted non-standard accounting in special cases where companies would otherwise be at risk of not recovering the costs of programs they are required to administer to advance important public policy goals. Companies have been permitted to defer expenses incurred under Conservation Improvement Programs, for example, and to defer margins lost under demand side management programs.<sup>2</sup> Here, too, Peoples should not be penalized financially for complying with a Commission directive to create and administer a program to defuse a serious public safety threat.

The Commission will therefore permit the Company to continue deferred accounting of farm tap inspection expenses, while requiring the Company to continue the farm tap inspection program as agreed to by the parties.

#### **ORDER**

1. Peoples shall continue the farm tap inspection program required by earlier Commission Orders in this docket.
2. Peoples may change the routine farm tap inspection interval from three years to five.

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<sup>2</sup>In the Matter of the Proposal of Otter Tail Power Company for a Demand-Side Management Financial Incentive, Docket No. E-017/M-91-457, ORDER ESTABLISHING DEMAND SIDE MANAGEMENT INCENTIVE PILOT PROJECT AND REQUIRING FURTHER FILINGS (March 12, 1992); In the Matter of Northern States Power Company Electric Utility's 1987-1988 Conservation Improvement Program Cost Recovery, Docket No. E-002/CI-88-684, ORDER DISALLOWING CERTAIN AMOUNTS IN TRACKER ACCOUNT (May 31, 1989).

3. Peoples shall continue to send farm-tap safety and information brochures to new farm tap customers before they take service and to all existing farm customers annually.
4. Within 20 days of the date of this Order Peoples shall file for review by Commission staff a revised version of its farm tap safety and information brochure.
5. Peoples shall continue to file annual reports on its farm tap inspection program on or before April 1 of each year.
6. Within 90 days of the end of each five-year inspection cycle and in each general rate case Peoples shall file with the Commission, the Department, and the Office of Pipeline Safety a five -year report including cumulative results of the inspection program and any recommendations for future improvements.
7. Peoples may continue deferring the costs of the farm tap inspection program for review in its next general rate case.
8. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar  
Executive Secretary

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